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SUBJECT: TURKEY TELECOM SECTOR: LIBERALIZATION IS HARD TO  
DO, AND PROCEEDS SLOWLY

SENSITIVE BUT UNCLASSIFIED. PLEASE HANDLE ACCORDINGLY.

11. (SBU) SUMMARY: A combination of poor service and high costs for telecom and information technology users impedes foreign investment and hampers Turkey's global competitiveness. While many Turkish officials express commitment and optimism, telecom sector liberalization is proceeding slowly, with the core problems being lack of progress in the privatization of the entrenched monopoly of Turk Telekom and an ineffective independent regulator. A process of accession to the European Union could help accelerate progress. End Summary.

All Lines Connect to Turk Telekom

12. (SBU) The path to potential liberalization of the telecom sector harks back to 1990 legislation and the creation of the Turkish Telecom Regulatory Authority. Unlike the energy sector wherein contemporaneous legislation provided for unbundling of the electricity monopoly as a first step, Turk Telekom maintained its dominant monopoly position. Attempts to privatize Turk Telekom in small blocks failed twice and the more recent attempt to privatize a majority chunk has been oft delayed, and will face obstacles from various interests, including Turk Telekom itself, the GOT (significant cash cow and potential bad press of selling crown jewels at perceived low price to foreigners), labor unions (concerns about employment), and the legal system (SEPTEL). The telecom sector liberalization itself has contributed to delays in the Turk Telekom privatization, as it creates ambiguity and a moving target.

How Effective is the Independent Regulator?

13. (SBU) The Telecom Regulatory Authority was created in 1990 to regulate and license telecom operators. Through its history, because of inadequate experience and size, it has not been able to function effectively as an overseer to Turk Telekom. The small, preexisting Wireless General Directorate in the Ministry of Transportation, which had responsibility for allocating frequencies, provided much of the personnel for the start-up regulatory body and the coalition government at the time gave the majority of initial board slots to members of the National Action Party (MHP), rather than necessarily to technically competent individuals. Although in principle independent, it has been difficult for the Telecom Regulatory Authority to operate independently of pressure from the government and Turk Telekom.

Under Whelming Little Bang in Long Distance

14. (SBU) In principle, as of January 1, 2004 the long distance service market was to open up with intended goals of improving service and reducing consumer prices. In fact, progress has been halting and slow. While in May 2004, the Turkey Telecom Regulatory Authority granted about forty licenses for long distance operation, only about five (among which, major business groups Koc, Sabanci, and Dogan) have actually signed agreements with Turk Telekom to interconnect and go into operation, despite pressure to utilize substantial investment put in place. Turk Telekom sought to charge 5-7 cents per minute for interconnection, compared to the 1-1.5 cent average rate in EU countries. Underlying legislation provided for licensees to conclude agreements with Turk Telekom by August 2004. The general lack of timely success in signing agreements put the Telecom Authority in the position of arbitrating a compromise. The Authority announced new "reference prices" in October, calling for current application of 3 cents interconnection fees, and phased reductions to EU levels of 1.5 cents in October 2005. Turk Telekom publicly protested the announced fee structure, claiming it faced substantial fixed and

operating costs, and threatened to take its complaint to the courts.

15. (SBU) In repeated conversations with EconOff, representatives of the start-up long-distance operator association, Telkoder, have bitterly complained about their challenge in facing the entrenched monopoly of Turk Telekom. In their view, not only have they been unsuccessful in securing reasonable interconnection fees with the Turk Telekom structure; in addition, they claim that Turk Telekom had announced reductions in its retail fee structure to maintain its market share. Telkoder reps have threatened to take their complaints to the courts. Meanwhile, consumers continue to rely on service from the monopoly provider. A Turk Telekom advisor told EconOff he expected that more licensees would be granted and eventually many would start operation, but there would be a subsequent and inevitable shakeout and contraction.  
Mobile Telephone Sector Only Competitive Bright Spot

16. (SBU) Turkey's GSM mobile telephone market enjoys considerable competition and the State Planning Board estimates 30 million cell phone users, compared to 18 million fixed telephone users. Four licenses for mobile telephone operation have been granted in Turkey and three actually operate. Mobile telephone operators also face high interconnection fees to Turk Telekom's infrastructure (15 cents per minute to decrease to 10 cents per the Telecom Authority reference prices). Private company Turkcell (listed on NYSE; Cukurova Group major stake) controls about two-thirds of the domestic cell phone market and also provides international roaming service. The balance of subscribers use Avea (merger of Turk Telekom and Italian owned entities) and Telsim (taken over by Turkey deposit guarantee fund from bankrupt Uzan group), so the competitive system is not as lively as it could be. Consumers generally face high prices and poor service from cellular providers. Unclear timing and details for a proposed public tender for Telsim have contributed to delays in tendering Turk Telekom.

#### Other Sectors and New Economy Dependent on Turk Telekom

17. (SBU) The New Economy/Knowledge Economy faces challenges in Turkey because all suppliers must connect to Turk Telekom; consumers face limited or poor service and high prices. Turk Telekom also controls the cable television network. Although cable television remains a monopoly, there is competition from digital satellite television, so consumers receive reasonable service and pricing. With respect to cable internet provision, consumers face high prices and poor service because of the lack of competition. The cable sector, too, is caught up in contention between the Competition Authority (seeks to split out cable service provision in the Turk Telekom tender) and the Privatization and Telecom Authorities (argue that Turk Telekom should keep this component to enhance its attractiveness to potential investors).

18. (SBU) Internet Service Providers (ISP) enjoy competition with 91 licensed operators, but all must both connect and compete with Turk Telekom itself, so residential and business consumers do not enjoy the benefits of a truly competitive environment. The Telecom Authority estimates about a 10 percent penetration in the population for internet usage, but growing at over 25 percent each year.

19. (SBU) Broadband shows even a greater unmet potential for consumers as Turk Telekom maintains direct control for provision via either cable or DSL. There are about 250,000 broadband DSL subscribers who face prices of about 1.5 to two times that of the U.S. and a speed of about five times slower than in the U.S. The Telecom Authority aims to eventually introduce licensing and competition in broadband, wireless, and data transmission, but no specific timing has yet been announced.

110. (SBU) Satellite service provides a niche market in Turkey. There are twenty licenses and three active operators. One provider told EconOff that it offered lucrative business to corporate customers, because of the non-competitive environment and lack of reasonable alternatives. This company admitted that this business would not be profitable if consumers had diverse and competitive telecom service choices available.

#### Comment

111. (SBU) Many contacts lament the apparent lack of interest on the part of American companies in the Turkish telecommunications sector, either in the Turk Telekom privatization or in other opportunities in telecom as it (slowly) liberalizes. Only European and Asian companies have so far participated in the information phase of the potential Turk Telekom tender. These contacts yearn for "U.S. know-how

and can-do approach" or "people who answer the phone in August". Over the years, some American firms, like Lucent and SBC, have looked at opportunities and/or opened offices in Turkey, but have later pulled back. While interesting opportunities will continue to evolve in the telecom sector, for many American firms, the Turkish market may look too non-transparent or too "European". American firms accessing the Turkish telecom infrastructure for multinational clients have complained to the Embassy about high interconnection fees and high international settlement rates. Unfortunately, this situation may not change in the short term.

12. (SBU) COMMENT CONTINUED: Many Embassy contacts insist that liberalization will eventually occur and are willing to place better odds on that process in comparison with the oft-delayed Turk Telekom privatization. Successful liberalization will be dependent on the Telecom Authority exercising greater independence, strength, and technical know-how. (Telecom Authority reps have expressed interest in contact with the U.S. FCC, for example, as a conference organized in Turkey with a visiting FCC individual or team.) Need to make both progress on E.U. harmonization and to improve the investment environment will be positive factors for catalyzing further liberalization. End Comment.

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